BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2006-144-G - ORDER NO. 2006-331

MAY 26, 2006

IN RE: Emergency Joint Petition of South Carolina Electric & Gas Company (SCE&G) and South Carolina Pipeline Corporation (SCPC) for Authority to Continue SCPC's Natural Gas Hedging Program on a Limited Basis for the Purpose of Assigning All Rights, Privileges, Obligations, Gains, Losses, and Costs Thereof to SCE&G.	)	ORDER GRANTING EMERGENCY JOINT PETITION

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Joint Petition of South Carolina Electric & Gas Company (SCE&G) and South Carolina Pipeline Corporation (SCPC) (together, the Joint Petitioners) for emergency and immediate authority to continue SCPC's natural gas hedging program on a limited basis for the sole purpose of assigning all rights, privileges, obligations, gains, losses, and costs thereof to SCE&G. Financial gains, losses, and costs incurred by SCPC in continuing to operate its Commission-approved hedging program for SCE&G will be charged or credited to SCE&G on a periodic basis. Any gains, losses, and costs shall be included in SCE&G's cost of gas.

Parties in SCPC's PGA proceeding, Docket No. 2006-6-G, have been notified of the Joint Petition in this Docket. The Office of Regulatory Staff (ORS) and Patriots

Energy Group (PEG) have consented to it. No response has been received from the other parties in the 2006-6-G Docket.

The Joint Petition states that to meet the demands of its customers, SCE&G has entered into Commission-approved contracts with SCPC, an intrastate pipeline company operating wholly within South Carolina, for the purchase and delivery of all of SCE&G's natural gas supply requirements. In order to meet its obligations under these contracts, SCPC purchases natural gas in the interstate gas markets and transports it to South Carolina using interstate pipeline transportation and storage services. Once the gas reaches South Carolina, SCPC transports the commodity over its intrastate pipeline system and delivers it to SCE&G who, in turn, transports the gas over its distribution system for delivery to its customers.

The Joint Petition discusses the volatility of prices in the natural gas industry, and that, accordingly, SCPC faces extreme price changes in a relatively short period of time. SCPC implemented a hedging program in 1995, with this Commission's approval, which was designed to achieve the average market price of natural gas over time and to mitigate the impacts of price volatility. SCE&G has benefited from this program, according to the Joint Petition.

In June of 2004, SCPC made a public announcement of the intention to merge SCG Pipeline, Inc. (SCG) into SCPC to form a single interstate natural gas transportation company. The Application to the Federal Energy Regulatory Commission (FERC) requested that certain relief be granted by July 31, 2006, so that the new entity, Carolina Gas, could commence operations in advance of the 2006-2007 heating season. If the merger is approved by FERC, SCPC will no longer purchase gas supplies for its customers, including SCE&G, and, consequently, SCPC will no longer operate a hedging program. With this pending merger, SCPC announced in testimony filed in Docket No. 2006-6-G that it is not taking hedging positions beyond September 30, 2006, as it does not expect to be purchasing gas after that time.

Further, the Joint Petition notes that, after reviewing this testimony, SCE&G contacted SCPC and requested that SCPC seek Commission approval to continue to hedge gas purchases on its behalf for its supply needs beyond September 30, 2006. SCE&G also requested that SCPC continue to operate its hedging exactly as approved by the Commission and that all hedges placed on its behalf be executed for the sole purpose of assigning all rights, privileges, obligations, gains, losses, and costs thereof to SCE&G.

SCE&G is currently examining the desirability of implementing and operating its own natural gas hedging program in the future, according to the Joint Petition. However, before SCE&G's evaluation and determination are finalized, potential opportunities may arise under SCPC's hedging program for hedging gas supplies which SCE&G will use to serve its firm load in the 2006-2007 winter season. Accordingly, the Joint Petition notes that the continuation of SCPC's hedging program on behalf of SCE&G will serve as a bridge during this interim period.

With all of the preceding as background, SCPC states that, in order for SCPC to act on hedging opportunities identified by continued normal and customary operation of its approved hedging program, the Joint Petitioners request authority for SCPC to immediately begin purchasing hedges for the account of SCE&G with maturity dates on and after October 1, 2006, as would normally and customarily be purchased under the Commission-approved hedging program for SCPC's own account. Further, the Joint Petition requests authorization for SCPC to hedge up to 75% of SCE&G's firm gas purchases for periods after October 1, 2006. This is in accordance with the presently approved program for SCPC. The gains, losses, and costs incurred by SCPC associated with each hedge made for SCE&G will be assigned directly to SCE&G on a periodic basis, and SCE&G will include and either recover or credit such gains, losses, and costs in its cost of gas.

Under the plan proposed by the Joint Petitioners, if and when SCPC ceases to purchase gas for its customers including SCE&G, any outstanding hedges made specifically for SCE&G under the request made herein would be assigned to SCE&G. SCE&G would accept those outstanding hedges purchased directly for SCE&G and would take full financial responsibility for those purchases, including the direct costs thereof.

According to the Joint Petition, if the Commission grants the relief requested, then SCPC would immediately begin to place hedges for SCE&G's account as would normally and customarily be made through operation of its approved hedging program. Such hedges would be executed with maturity dates for periods on and after October 1, 2006, and SCPC would continue to operate the hedging program for the account of SCE&G until it begins interstate operations or until it is directed otherwise by SCE&G or the Commission. Further, if the relief is granted, SCE&G anticipates that the Commission would review the prudency of SCPC's continued operation of the hedging program for the account of SCE&G in its annual review of SCE&G's Purchased Gas Adjustments.

Finally, the Joint Petition states that continuation of the hedging program for SCE&G is in the public interest and should be authorized as requested. Again, ORS and PEG expressed no opposition to the Joint Petition.

We grant the Joint Petition as filed. As the Joint Petition notes, SCE&G presently obtains its gas supply through Commission-approved contracts with SCPC. There is no doubt in our minds as to the volatility of prices in the natural gas industry. We agree that a hedging program, such as that employed by SCPC, may be useful in achieving the average market price of natural gas over time and in mitigating the impacts of price volatility. SCE&G has not heretofore had to purchase gas on the open market, since it has purchased all of its gas directly from SCPC. Therefore, it has no mechanism in place to attempt to reduce volatility in gas prices. We note that SCPC has an already established hedging program that has been in existence since 1995 that is applicable up to 75% of its gas supply. Accordingly, we believe it is logical to allow SCPC to continue to hedge for SCE&G up to 75% of SCE&G's firm gas supply.

We therefore grant the following relief, based on the foregoing reasoning:

1. SCPC is granted emergency and immediate authority to continue its Commission-approved natural gas hedging program on a limited basis for the sole purpose of assigning all rights, privileges, gains, losses, and costs thereof to SCE&G;

2. SCPC is authorized to credit or charge SCE&G on a periodic basis the financial gains, losses, and costs incurred by SCPC in continuing to operate its hedging program for SCE&G;

3. SCE&G is authorized to include the financial gains, losses, and costs in its cost of gas;

4. SCPC is authorized on behalf of SCE&G to purchase hedges with maturity dates on and after October 1, 2006, as would normally and customarily be purchased by SCPC for its own account under the Commission-approved hedging program;

5. SCPC is authorized to hedge up to 75% of SCE&G's firm gas purchases for periods after October 1, 2006;

6. SCPC is permitted to continue to operate its hedging program for the account of SCE&G on all contracts as of May 23, 2006, and forward until it either transitions to interstate jurisdiction or is otherwise directed by SCE&G or the Commission;

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Randy Mitchell, Chairman

ATTEST:

G. O'Neal Hamilton, Vice Chairman

(SEAL)